Academy
Internal Controls Evaluation
Report 1 of 3
2020-21

Academy Name: Michaela Community School
Date of Review: December 2020

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INTERNAL CONTROLS EVALUATION (ICE)

This report relates to the first of a programme of three Internal Controls Evaluation reviews. All findings contained in this report should be considered by the academy's committee responsible for providing assurance over the suitability of, and compliance with, the financial systems and operational controls in place.

Key:

- High Priority: Trustees must review this recommendation as a priority.
- Medium Priority: Internal controls should be strengthened to minimise risk.
- Low Priority: Internal control could be strengthened in line with best practice, but little risk of material loss.
- For information.
- Checks performed to verify items listed in the scope of work found the systems to be in order and no issues were identified.

The Juniper Education Academy ICE Service can provide assurance that appropriate financial controls are being operated within the academy, based on the understanding that the information provided during the review is accurate and complete. It should be noted however that recommendations to improve financial controls, if implemented, cannot guarantee that fraud or misappropriation could not occur.
Please note that this report is an exception report, and therefore, only contains the details of any issues arising.

Where appropriate this report contains references to the Academies Financial Handbook (AFH) effective 1st September 2020, the Anti-Fraud Checklist for Academy Trust's updated by the Education & Skills Funding Agency (ESFA) March 2018 and the Self Resource Management Self-Assessment Tool (SRMSAT).

It is advised that an action plan be established to address areas of risk identified within this report, with an associated owner and a timeline for implementation. If trustees decide not to implement any recommendation included in this report as high priority, the rationale should be formally recorded in the minutes of a board of trustees .

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SECTION A: GOVERNANCE AND FINANCIAL MANAGEMENT

Scope of Work	
A1: Financial Oversight:	• appointment of statutory auditors • appointment of the clerk to the board • Scheme of Delegation of Financial Powers • authorised signatories / specimen signature list • finance governance and Terms of Reference
A2: Financial Planning and Monitoring:	• budget forecast return • academy budget
A3: Transparency:	• 'Get Information About Schools' register • register of Persons with Significant Control • individual declaration of interests • disclosure of interests at meetings • managing related party transactions • publication of member & trustee interests and other required information on the academy website
A4: Gifts:	• gifts & hospitality received • gifts & hospitality given

A5: Expenses:	• policy
A6: Risk Management:	• Register of Operating Risks and schedule of review • Contingency and Business Continuity Plan
A7: Internal Scrutiny:	• audit - governance • whistleblowing • follow up of previous ‘high priority’ ICE recommendations • review of statutory audit Management Letter
A8: VAT:	• VAT registration

	Findings	Recommendation / Notes	Action Plan
	A1: Financial Oversight		
	Authorised Signatories		
🔴	The authorised signatories contained in the letter from the bank held on file (dated 17th November 2020) did not reconcile to the signatories listed in the Finance Policy.	The information contained in the bank mandate/letter from the bank should be consistent with that recorded in the Finance Policy.	Will be addressed in new Finance Policy – July 2021
🟢	The specimen signatory list reviewed did not include all authorised bank signatories and all individuals with expenditure authorisation limits.	For internal control and audit purposes the academy's specimen signatory list should be updated to include all bank signatories and individuals with expenditure authorisation limits.	Have updated the list held by the bank

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	Findings	Recommendation / Notes	Action Plan
	A2: Financial Planning and Monitoring		
	Budget Forecast Return		
●	As at the time of the review the academy has not completed a budget forecast to 2023.	Although the Dear Accounting Officer letter dated July 2020 removed the need for academies to submit their 3-year forecast in the 20/21 financial year, it remains a requirement for academies to compile a 3-year forecast for their own internal financial planning as required by section 2.11 of the Academies Financial Handbook. The Board of Trustee's review of the 3-year forecast should include the assumptions made. Evidence of review should be included in the minutes of a meeting.	Will include 3 year forecast when setting budget for 2021/22
●	The Budget Summary held on file was not signed by the Chair of Trustees.	The approved budget should be signed by the relevant authority and the signed copy retained on file for future reference.	Will address for 2021/22 budget

	Findings	Recommendation / Notes	Action Plan
	It was advised that the current version of the financial accounting system does not retain the 'original' approved budget figures. It was not therefore possible to verify that the budget approved by the Board of Trustees had been correctly input on to the financial accounting system. The Finance Manager advised that trustees receive an Excel-based report to show budget variances.	When the budget approved by the Board of Trustees is retained on the financial accounting system it enables trustees to accurately monitor the budget and approve any 'in year' changes made to it (virements). Whenever possible financial accounting system generated data should be circulated to the trustees to avoid the risk of data being manipulated. It is advised that the academy investigates the feasibility of enhancing the financial accounting system functionality so that system generated reports can be generated to monitor the approved budget.	Under review
	A3: Transparency		
	'Get Information About Schools' Register		
	The majority of the members are not independent of the Board of Trustees.	Section 1.5 of the 2020 Academies Financial Handbook states that there should be significant separation between individuals who are members and those who are trustees therefore majority of members should be independent of the Board of Trustees.	Appointment of three new members who are not governors is in hand

	Findings	Recommendation / Notes	Action Plan
	Not all Register of Interests declaration forms were completed in full.	It is recommended that individual Register of Interests declaration forms should be completed in full and clearly noted as 'nil' returns if there are no interests to be declared.	Will address for 2021/22 declarations
	Managing Related Party Transactions		
	The academy has a process in place to recognise transactions with parties related to members and trustees. However, see finding above – some Register of Interest declaration forms were not fully completed.	Academies must ensure that they have a robust process in place for recognising transactions with related parties to ensure compliance with the requirements detailed in the Academies Financial Handbook. Note 1: Section 5.40 of the Academies Financial Handbook states that any transactions with related parties made on or after 1st April 2019 **must** be reported to ESFA in advance of the transaction taking place, using ESFA's online form. Note 2: related party transactions will be further reviewed during the expenditure sample testing in a later Internal Controls Evaluation review.	Assumed that a blank space indicated a nil return, will address for 2021/22 declarations

	Findings	Recommendation / Notes	Action Plan
	Publication of Information on the Academy Website		
●	It was not possible to verify that the interests published on the school's website were accurate and up to date, for all members/trustees, as some forms had not been completed in full.	The governing body should ensure that interests published on the school's website are accurate and up to date. Section 5.44 of the Academies Financial Handbook states that published interests **must** include governance roles in other educational institutions.	See above

	Findings	Recommendation / Notes	Action Plan
	A4: Gifts		
	Gifts and Hospitality Received and Given		
	The academy does not have a current policy on the giving and acceptance of gifts and hospitality that might be seen to compromise personal judgement or integrity.	Section 5.31 of the Academies Financial Handbook specifies that the academy should have a policy on the acceptance of gifts, hospitality, awards, prizes or any other benefit that might be seen to compromise their judgement or integrity and should ensure that all staff are aware of this policy. When making gifts, the trust must ensure the value is reasonable, is within its scheme of delegation, the decision is documented, and achieves propriety and regularity in the use of public funds. Members and trustees should also be made aware of this policy. If such benefits are received, they should be recorded in a register detailing, for each occasion, the nature of the benefit and the donor.	Policy to be written and approved, July 2021

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	Findings	Recommendation / Notes	Action Plan
	A5: Expenses		
	Expenses Policy		
🟡	The academy does not have a policy in place for members / trustees and staff claiming expenses.	The academy should have an Expenses Policy that provides members / trustees and staff with assurance that expenses being claimed are a reasonable use of public funds.	Policy to be written and approved, July 2021
	A6: Risk Management		
	Register of Operating Risks		
🔴	The academy does not have a formal process in place for recognising and managing present and future operating risks.	Section 2.38 of the Academies Financial Handbook states that the academy **must** manage risks to ensure its effective operation and **must** maintain a risk register. The Board of Trustees must retain overall oversight of the Risk Register. It is therefore recommended that the Risk Register is formally reviewed by the Board of Trustees at least annually; each term is recommended.	Will work with Operations Manager and SLT, draft RR to come to first FGB of autumn term

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	Findings	Recommendation / Notes	Action Plan
	Contingency and Business Continuity Plan		
	The academy does not have a documented Contingency and Business Continuity Plan.	Section 2.39 of the Academies Financial Handbook states that the academy's management of risks **must** include contingency and business continuity planning. The academy should have an appropriate documented plan in place that sets out the contingency arrangements that would enable the academy to cope in an emergency situation. The plan should be formally reviewed, annually is recommended. As a minimum the plan should include contingency arrangements for: • if the academy's premises were not available for an extended period (e.g. due to fire or flood) • large scale loss of property (e.g. through fire or theft) • loss of information through catastrophic failure of IT systems • mass unavailability of staff (e.g. through a pandemic) The plan should be kept up to date because an out of date plan is unlikely to be of use in an emergency.	Will work with Operations Manager and SLT, draft BCP to come to first FGB of autumn term

	Findings	Recommendation / Notes	Action Plan

	Findings	Recommendation / Notes	Action Plan
	A7: Internal Scrutiny		
	<u>Whistleblowing</u>		
●	The Finance Manager advised that the Whistleblowing Policy has been approved via a Chair's action; however, the Chair's action has not yet been recorded in the minutes of a Board of Trustees meeting. The Whistleblowing Policy has been signed by the Chair of Trustees and published on the academy's website.	It is recommended that all Chair's actions are recorded in the minutes of the next Board of Trustees meeting.	Noted
	A8: VAT		
○	Checks performed to verify items listed in the scope of work found the systems to be in order and no issues were identified.		

SECTION B: BANKING

Scope of Work	
B1: Internal Control:	• bank account structure • payment authorisation procedures • separation of duties (including online banking and BACS payments) • security of cheque and BACS payments
B2: Cash Management:	• bank reconciliations – frequency & review process • sample testing of bank reconciliations

	Findings	Recommendation / Notes	Action Plan
	B1: Internal Control		
	Payment Authorisation		
🔴	The academy's Finance Policy does not specify that two signatories must approve all bank account withdrawals and payments.	It is strongly recommended that all bank account withdrawals and payments are signed by at least two authorised bank signatories to reduce the risk of error or deliberate misappropriation of academy funds.	New Finance Policy will cover, in practice 2 signatures are required for all transactions
🟢	The academy's Finance Policy do not specify a transaction value above which one of the approving signatories must be a member of the academy governing body other than an employee of the academy.	As part of the controls regulating the operation of the academy's bank accounts, it is recommended that a member of the academy's governing body, other than an employee of the academy, should be a signatory for any bank account withdrawal or payment exceeding a certain value e.g. £10,000.	New Finance Policy will cover
	Separation of Duties		
🔴	The Finance Manager is responsible generating and approving faster payments, completing the bank reconciliations and is also an authorised bank signatory.	To ensure appropriate separation of duties any person responsible for processing invoices received, generating faster payments and completing bank reconciliations should not also be an authorised bank signatory.	Approval of faster payments by Operations Manager now

	Findings	Recommendation / Notes	Action Plan
			in place

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	Findings	Recommendation / Notes	Action Plan
●	The academy does not contact all suppliers to verify bank account additions or changes.	New supplier bank account details must be verified with the supplier. Documentation for each supplier bank detail amendment/creation should include evidence of a phone call made to the supplier to confirm the new bank details. This record should contain who made the call, the date the call was made, and the supplier representative spoken to.	
●	The current faster payments process only requires one authorised signatory to release faster payments.	The online banking facility should be set up so that all online payments require two online approvers.	Two online approvers now set up
●	There is no independent check of the bank details input for faster payments.	It is recommended that all supplier bank account additions and changes input are independently checked to ensure they are correct prior to the release of faster payments. See above – it is recommended that all payments are released by two approvers. The approvers should be provided with sufficient information to enable them to verify that supplier bank account details for faster payments are correct.	

	Findings	Recommendation / Notes	Action Plan
	B2: Cash Management		
	Bank Reconciliations		
🟡	As at the date of the review, formal bank balance reconciliations had not been completed regularly for all accounts.	Formal bank reconciliations (financial accounting system bank balance to bank statement balance) should be completed at least once every month for all bank accounts. Where bank reconciliations are not promptly and accurately completed, errors, omissions and fraudulent transactions may go undetected resulting in financial loss and reputational damage to the academy.	This was Covid/home working related. Bank reconciliations are now back on track
🔴	The bank reconciliations examined had not been independently reviewed.	An independent management review of completed bank reconciliations should be carried out at least termly (monthly is recommended) and evidenced with a dated signature.	This was Covid/home working related. Bank reconciliations are reviewed by KB on a monthly basis

SECTION C: PAYROLL & EXPENSES

Scope of Work	
C1: Payroll Processing:	• payroll provider contract / SLA • process of independent review • sample testing of staff contracts and payments
C2: Mileage and Subsistence Payments:	• authorisation • payment

	Findings	Recommendation / Notes	Action Plan
	C1: Payroll Processing		
	Independent Review		
	There is no independent review of the academy's payroll.	Payroll transactions will generally be the academy's largest expenditure. It is therefore recommended that as part of the system of internal control an independent review of the payroll is carried out prior to release for processing into employee bank accounts, to confirm that only appropriate payments have been made to current academy employees. Reports examined should be signed and dated as evidence that the checks have taken place.	Payroll now checked by member of SLT

	Findings	Recommendation / Notes	Action Plan
	C2: Mileage and Subsistence Payments		
	Authorisation & Payment		
🟢	The Finance Policy does not specify who can authorise mileage and subsistence claims made by the Headteacher.	The Finance Policy should be updated to specify who can authorise mileage and subsistence claims made by the Headteacher.	New Finance Policy will cover
🟡	Claims submitted by academy staff were reviewed and had not been appropriately authorised.	All mileage and subsistence claims should be approved as specified in the academy's Finance Policy.	Claims were signed off by senior staff, New Finance Policy will cover
🟢	The Finance Manager advised that mileage and subsistence claims are reimbursed via faster payments.	It is good practice that the reimbursement of mileage and subsistence claims is made to employees through the payroll to ensure transparency of payments that may have tax and national insurance implications.	Do not believe this to be necessary - ask for governor approval

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USEFUL NOTES

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KEY CONTACTS

Juniper Education Review Consultants	Glenys Keeble and Jane Monaghan
Information Provided by	Finance Manager
Exit meeting attended by	Finance Manager
Chair of the Board of Trustees	Chidi Amadi
Headteacher / Accounting Officer	Katharine Birbalsingh
Finance Manager	Ali Mansfield
Financial Accounting System	Sage 50 Accounts Professional

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Juniper Education
Boundary House, 4 County Place,
Chelmsford, CM2 0RE

t. 0345 200 8600
e. enquiries@junipereducation.org
w. junipereducation.org

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